

Message Text

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22

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 XMB-02 FAA-00 DOTE-00 CIAE-00

INR-07 NSAE-00 CIEP-01 /030 W
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P R 180835Z AUG 76

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC PRIORITY 4156

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL FRANKFURT

DIA WASHDC

USDOC WASHDC

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FRANKFURT AND BRUSSELS FOR FAA

ROME FOR FAA AND RCAA

STATE PASS XMB

COMMERCE FOR BIC/OED

E. O. 11652: N/A

TAGS:BEXP, EAIR, EFIN, ETRN, CY

SUBJECT: CIVAIR: REEQUIPMENT FOR CYPRUS AIRWAYS

REF: (A) NICOSIA 2221 (NOTAL), (B) STATE 170961 (NOTAL),
(C) NICOSIA 1676 (NOTAL), (D) NICOSIA 1501, (E) NICOSIA 0788, (F)
75 NICOSIA 2644, (G) 75 NICOSIA 2171 (NOTAL), (H) 75 NICOSIA 0601
(NOTAL), (I) NICOSIA A-54

FOLLOWING IS SUMMERY OF AIRGRAM, REF (I), ON CYPRUS AIRWAYS

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REEQUIPMENT PROGRAM SINCE EVENTS OF 1974.

1. EIGHTEEN MONTHS EFFORT BY MCDONNELL-DOUGLAS CORP (MDC) TO SELL DC-9 AIRCRAFT TO CYPRUS AIRWAYS (CY) CAME TO AN UGLY LAST WEEK WHEN CY INFORMED MDC AND EMBASSY THAT ITS MOST RECENT INTERNAL STUDY SHOWED BEYOND DOUBT THAT BRITISH AIRCRAFT CORP. (BAC) LEASE/SALE PACKAGE OF SECOND HAND/NEW BAC-111 (SERIES 500) AIRCRAFT NOT ONLY CHEAPER FOR CY BUT THAT BAC-111 IS BETTER SUITED FOR CY ROUTES THAN DC-9 AIRCRAFT OFFERED BY MDC. MDC SALES TEAM REPORTED TO EMBASSY THAT WHEN THEY ASKED CY FOR EXPLANATION IN LIGHT OF PREVIOUS CY ORAL COMMITMENT FAVORING DC-9, CY GENERAL MANAGER STRONGLY DENIED HAVING MADE PRIOR COMMITMENT FOR DC-9. AFTER CY ANNOUNCEMENT ON 8/11/76 THAT ORIGINAL MDC OFFER OF DC-9 SERIES 34 WAS NO LONGER VIEWED AS BEST AIRCRAFT FOR CY'S NEEDS, CY GAVE MDC THREE DAYS TO COME UP WITH A LAST REVISED OFFER IF IT WISHED TO MAKE ONE.

2. ON 8/12/76, AFTER CY ANNOUNCEMENT OF DECISION IN FAVOR OF BAC-111, EMBASSY CHARGE AND ECON/COMM OFFICER VISITED GEORGE ELIADES, CHAIRMAN OF CY BOARD (WHO IS ALSO DIRECTOR GENERAL OF MINISTRY OF COMMERCE) TO ELICIT CY VIEWS REGARDING MDC SALES TEAM IMPRESSION THAT CY HAD SWITCHED SIGNALS AT LAST MOMENT THEREBY PRECLUDING EQUITABLE SALES CHANCE BY MDC. ELIADES REFERRED EMBASSY TO CY GENERAL MANAGER EVDOKIOS SAVVA AND A MEETING WAS ARRANGED THAT EVENING. GENERAL MANAGER, WITH BOARD CHAIRMAN PRESENT, DENIED ALL SUGGESTIONS THAT MDC HAD BEEN UNFAIRLY TREATED, STRESSED THAT BAC OFFER WAS FINANCIALLY THE BEST AND THAT BAC-111 AIRCRAFT WAS BEST SUITED FOR CY NEEDS. GENERAL MANAGER, NUMEROUS TIMES REFERRING TO CY INTERNAL STUDY, TRIED GENERALLY TO CONVINCE CHARGE AND E/C OFFICER WITH AVALANCHE OF DATA AND COSTS KNOWING FULLY WELL THAT CHARGE AND E/C OFFICER COULD NOT POSSIBLY FOLLOW HIS ARGUMENTS. SUGGESTION THAT CY STUDY BE MADE AVAILABLE FOR REVIEW WAS FIRMLY TURNED DOWN.

3. ON 8/14/76 MDC PROPOSED REVIEW PACKAGE FOR LEASE/SALE OF USED RPT USED DC-9 SERIES 10 AND SERIES 30 AIRCRAFT. OFFER REJECTED ON 8/16/76 BY CY GENERAL MANAGER WHO LIMITED OFFICIAL USE

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ACCORDING TO MDC SAID THAT CY BOARD WOULD NOT CONTEMPLATE PURCHASING USED AIRCRAFT. BITTER MDC SALES TEAM LEFT CYPRUS 8/16/76, STATING THAT CY GENERAL MANAGER CANNOT BE TRUSTED, HAVING BACKED DOWN FROM WHAT MDC CONSIDERS AS COMMITMENT TO DC-9. MDC TEAM ALSO OF OPINION (EMBASSY HOLDS BASICALLY SAME VIEW) THAT BRITISH PRESSURED CY TO FAVOR BAC DEAL (BRITISH AIRWAYS OWNS 22.7 PERCENT SHARES OF CY). MDC TEAM ALSO EXPRESSED VIEW THAT WITHOUT EXIMBANK

FINANCING MDC WAS AT DISADVANTAGE AS FAR AS OFFERING NEW AIRCRAFT (EMBASSY SINCE LAST YEAR HAD CONSISTENTLY CAUTIONED MDC ON QUESTION OF XMB FINANCING).

4. EMBASSY SUSPECTS THAT AROUND MAY/JUNE WHEN THE CY BOARD OF DIRECTORS (WHICH INCLUDES TWO BRITISH AIRWAYS OFFICERS) LEARNED THAT GENERAL MANAGER FAVORED PURCHASE OF NEW AMERICAN AIRCRAFT, BAC WAS ALERTED AND LEASE/SALE PACKAGE WITH FAVORABLE ECGD FINANCING WAS PUT TOGETHER; AT SAME TIME WE HEAR THAT IT WAS MADE KNOWN TO CY THAT UNLESS THE BRITISH PACKAGE WAS ACCEPTED CYPRUS AIRWAYS' PREFERENTIAL USE OF HEATHROW COULD NOT BE GUARANTEED AND THE AIRLINE MIGHT HAVE TO OPERATE FROM MANCHESTER. THIS, ALONG WITH BRITISH OFFERS OF LOW INITIAL MAINTENANCE RATES FOR BAC-111 AIRCRAFT, PRECLUDED ADNY DEAL WITH MDC.

5. AIRGRAM FOLLOWS WITH MORE COMPLETE OUTLINE OF DEVELOPMENTS. DILLERY

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